

ACTIVITY

Spain: economic recovery gains traction during 2Q17

Spain Unit

18 May 2017

The trend in the observed variables indicates that the **Spanish economy continues to grow throughout the first half of the year**. With almost 20% of the information available for 2Q17, the MICA-BBVA model¹ estimates that **quarterly GDP growth (QoQ) could increase to 1.0% or 1.1%**, the highest rate seen since the first quarter of 2006 (see Figure 1). The confirmation of this forecast would once again imply a slight upward bias to the growth envisaged in the BBVA Research scenario for 2017 (3.0%)².

Domestic demand continues to recover

During the first months of 2017 domestic demand would have maintained its fundamental role as a growth driver, with a similar contribution to GDP to that observed over the course of last year (0.6pp QoQ on average). In fact, available information for the first quarter suggests that all components of domestic demand would have registered positive growth.

On the one hand, signs extracted from expenditure, expectations and labour market indicators point to private consumption having moderated slightly, although maintaining a progress pace above 0.5% QoQ (see Figure 2). As for public consumption expenditure, budget execution data point to marginal growth in 1Q17 (by around 0.2% QoQ), following the fall seen at the end of 2016. Apart from this, **we estimate that growth in investment will have moderated to figures from the beginning of 2014**. Partial indicators suggest that investment in machinery and equipment would have recovered in the first few months of 2017 after practically stagnating in the second half of last year (see Figure 3). For the side of residential investment, we estimate that the pace of recovery has already begun to consolidate at rates close to those observed at the end of 2016 (see Figure 4).

1: See Camacho, M. and Doménech, R. (2010): "MICA-BBVA: A Factor Model of Economic and Financial Indicators for Short-Term GDP Forecasting" BBVA WP 10/21, available at: <http://goo.gl/zeJm7g>

2. BBVA Research's description of the economic scenario for the two-year period 2017-2018 can be found in the Spain Economic Outlook review, first quarter 2017, available at: <https://goo.gl/laz96F>

Growth in external demand would have consolidated in early 2017

Turning to external demand, available indicators suggest that exports of goods and non-tourism services will have grown in the first quarter at a similar pace to that observed at the end of 2016. Regarding exports of tourism services, although remaining healthy, they seem to have slowed relative to the strong increase of the fourth quarter of last year (see Figure 5). Imports are estimated to have increased by less than total exports, leading to an **increase in the contribution to growth of net external demand compared with that observed in 4Q16**.

Labour market figures gain momentum in 2Q17

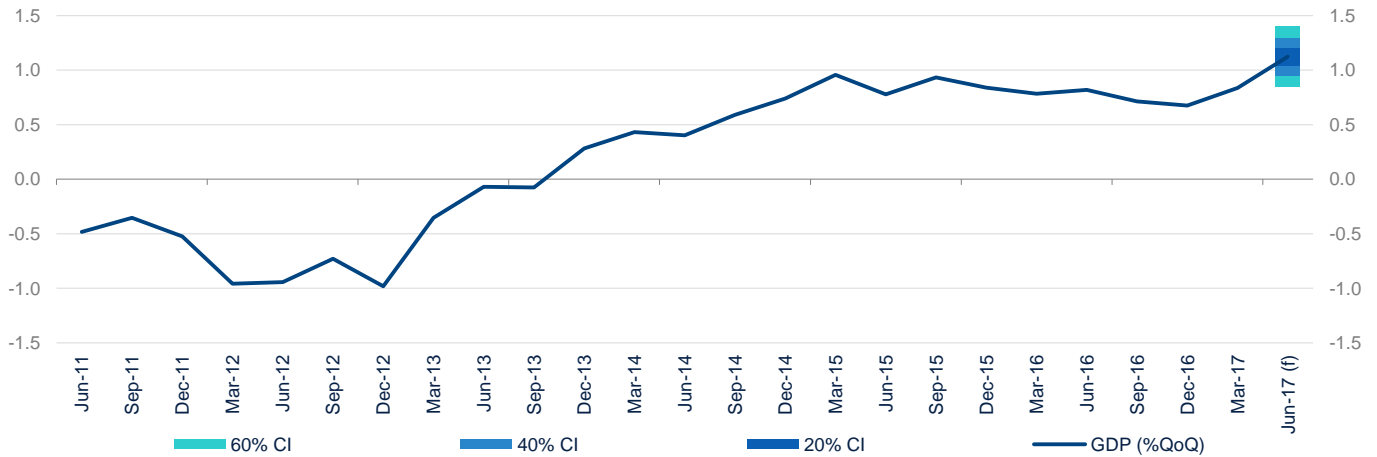
Following the positive closing of the first quarter, the increase in the Social Security affiliations regained strength at the beginning of the second quarter (to 86,000 SWDA, according to BBVA Research estimates). If this trend continues for the rest of the semester, the increase in affiliations could accelerate to 1.1% QoQ SWDA in 2Q17, two tenths more than in the first quarter. Meanwhile, registered unemployment continued its downward trend last month (-50,000 people SWDA according to BBVA Research estimates), and if this continues in May and June, it will lead to a bigger fall than that observed at the beginning of 2017 (-3.5% QoQ SWDA as against -2.8% in 1Q17) (see Figure 6).

Inflation increased temporarily in April

Headline inflation increased by three tenths last month (to 2.6% YoY), in line with expectations (BBVA Research: 2.5% YoY). This result was due to the base effect of the change in the Easter calendar, which led core inflation to around 1.2% YoY (see Figure 7). **Thus, although the uptick in inflation has diminished, it is continuing to moderate the economy's gains in price competitiveness**. The headline inflation differential has therefore been unfavourable to Spain since December (0.7 pp, compared with the historical average of 0.8pp) and we estimate that the price differential of the core component remains practically closed.

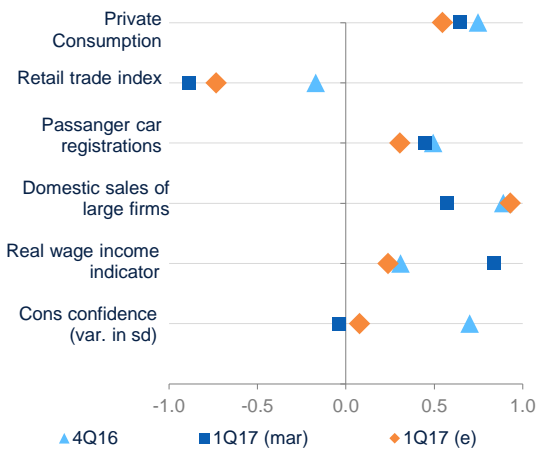
Looking ahead, we expect the base effect of energy prices to dissipate further, helping to bring headline inflation down. **Thus, the year will therefore end with an average headline inflation of around 2.1%, while core inflation will continue its gradual upward trend (1.2% on annual average for 2017)**.

Figure 1 Spain: observed growth in GDP and forecasts of the MICA-BBVA Model (% QoQ)



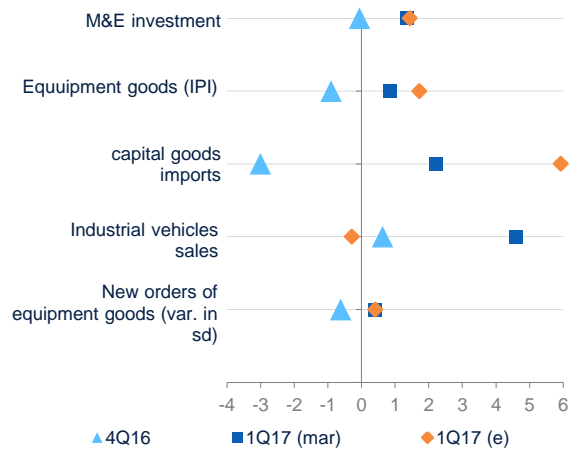
(e): estimated.
Source: BBVA Research

Figure 2 Spain: selection of indicators linked to household consumption (% QoQ SWDA unless otherwise indicated)



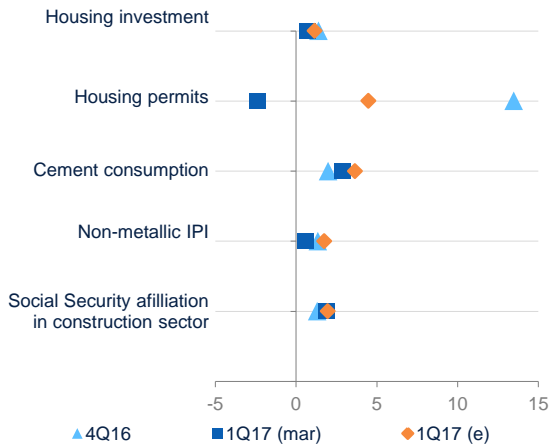
Dates in brackets are estimates for non-observed data
Source: BBVA Research based on data from official bodies

Figure 3 Spain: selection of indicators linked to capital expenditure on plant and equipment (% QoQ)



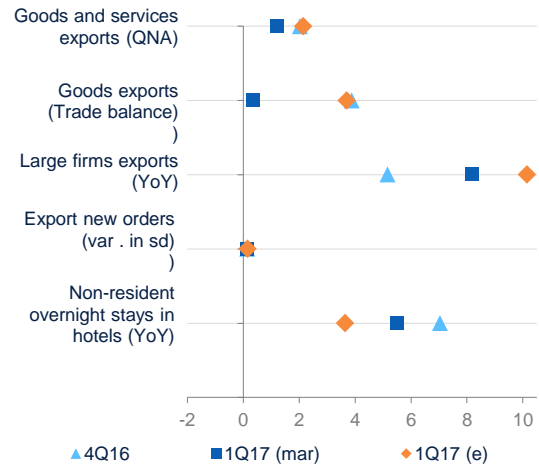
Dates in brackets are estimates for non-observed data
Source: BBVA Research based on data from official bodies

Figure 4 Spain: selection of indicators linked to investment in residential construction (% QoQ)



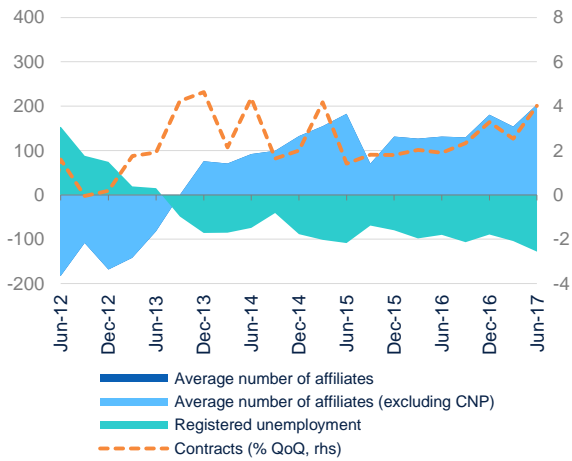
Dates in brackets are estimates for non-observed data
Source: BBVA Research based on data from official bodies

Figure 5 Spain: selection of indicators linked to Exports (% QoQ unless otherwise indicated)



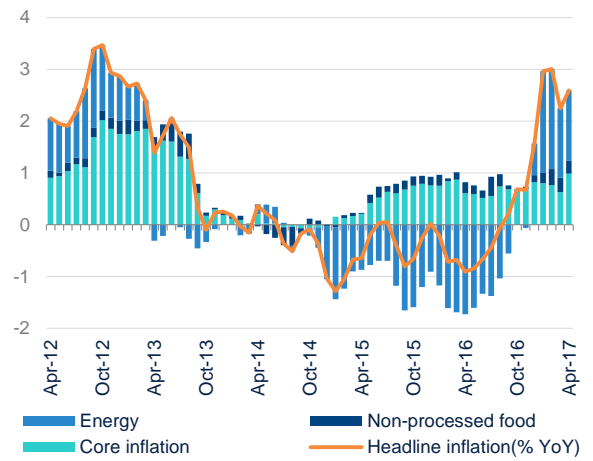
Dates in brackets are estimates for non-observed data
Source: BBVA Research based on data from official bodies

Figure 6 Spain: figures from the labour market (quarterly change in thousands of people unless otherwise indicated, SWDA data)



Source: BBVA Research, based on Ministry of Employment and Social Security figures

Figure 7 Spain: contribution to year-on-year growth in CPI (pp)



Source: BBVA Research, based on INE figures

Table 1 Spain: macroeconomic forecasts (Annual rates of change in %, unless otherwise indicated)

(Annual average %)	2014	2015	2016	2017(f)	2018(f)
Activity					
Real GDP	1.4	3.2	3.2	3.0	2.7
Private consumption	1.6	2.8	3.2	2.5	2.4
Public consumption	-0.3	2.0	0.8	1.0	2.0
Gross Capital Formation	3.8	6.0	3.1	3.3	4.5
Machinery and Equipment	8.3	8.9	5.0	3.6	4.4
Construction	1.2	4.9	1.9	2.8	4.2
Housing	6.2	3.1	3.7	4.3	5.8
Domestic Demand (contribution to growth)	1.9	3.3	2.8	2.3	2.6
Exports	4.2	4.9	4.4	5.8	5.0
Imports	6.5	5.6	3.3	4.2	5.2
External Demand (contribution to growth)	-0.5	-0.1	0.4	0.7	0.1
Nominal GDP	1.1	3.7	3.6	5.1	5.3
(Billions of euros)	1037.0	1075.6	1113.9	1170.7	1232.4
Labour market					
Employment, LFS (Labour Force Survey)	1.2	3.0	2.7	2.6	2.6
Unemployment rate (% of labour force)	24.4	22.1	19.6	17.3	15.6
Employment (full-time equivalent) QNA (Quarterly National Accounts)	1.1	3.0	2.9	2.4	2.2
Apparent productivity of labour factor	0.3	0.3	0.4	0.6	0.6
Prices and costs					
CPI (annual average)	-0.2	-0.5	-0.2	2.1	1.9
CPI (end of period)	-1.0	0.0	1.6	1.4	1.9
GDP deflator	-0.3	0.5	0.3	2.1	2.5
Remuneration per employee	0.0	0.4	0.0	0.7	1.8
Unit labour cost	-0.3	0.2	-0.4	0.1	1.2
External sector					
Balance of payments on current account (% of GDP)	1.1	1.4	1.9	1.8	1.5
Public sector (*)					
Debt (% of GDP)	100.4	99.8	99.3	97.8	95.0
Balance Public Admin. (% GDP)	-5.9	-5.1	-4.3	-3.1	-2.1
Households					
Nominal disposable income	0.9	1.9	2.8	3.6	4.6
Savings rate (% nominal income)	9.1	8.4	8.4	7.5	7.9

Annual change in %, unless indicated expressly

(f): forecast.

Forecast closing date: 12 April 2017

(*): Excluding aid to Spanish banks

Source: BBVA Research

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